

**STRATEGY
RESEARCH
PROJECT**

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**DEPARTMENT OF DEFENSE, INC.
ARE WE READY TO BECOME AN EXTENSION OF CORPORATE
AMERICA?**

BY

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USAWC STRATEGY RESEARCH PROJECT

Department of Defense, Inc.

**Are We Ready To Become An Extension of Corporate
America?**

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ABSTRACT

AUTHOR: LTC William D. Beatty III

TITLE: Department of Defense, Inc. Are We Ready To Become An Extension of Corporate America?

FORMAT: Strategy Research Project

DATE: 7 April 1999 PAGES: 48 CLASSIFICATION: Unclassified

Americans are always looking for ways to improve government services and lower costs. Therefore, it is imperative to examine the boundary between the government and private industry conveyance of goods and services. Privatization, or the selling of government assets, separates the service functions from the government and transfers it to a private entity without further government assistance. Outsourcing, or simply contracting out, allows the government to enter into contracts with private firms to provide goods and services used by the government at a substantial cost saving. Privatization and outsourcing may enable the Department of Defense (DoD) to effectively modernize and sustain support for the warfighter at a reduced cost to the taxpayer. From the policy guidance depicted in the OMB Circular A-76 to the influence from the current Administration and Congress, the DoD must consider a multitude of issues and develop strategies to transfer functions to the private sector. This paper investigates and summarizes the positive impacts of these options on the DoD as they proceed to the 21st century.

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**DEPARTMENT OF DEFENSE, INC - ARE WE READY TO BECOME AN
EXTENTION OF CORPORATE AMERICA?**

Americans are always looking for ways to improve government services and operate at substantially lower costs. Many believe that the government has become enormous, bureaucratic, expensive and, ultimately, too intrusive in their lives. At a time when Congress is trying to cut the deficit, the current administration is trying to reinvent government and answer the demands of the American people for a less bureaucratic and more efficient government. Cost reductions and avoidances, revenue streams and their "customers" motivate Federal agencies.

Interest has grown over the years in using commercial services as one of the tools available to reduce costs in a balanced budget environment. Identifying commercial type activities and then using the Office of Management and Budget guidelines to conduct a cost comparison between government and industry are key elements in determining cost effective government alternatives. A methodical approach should be used and strategies developed when deciding which functions can be transferred to our industry partners. The Clinton administration, Congress, and the Department of Defense (DoD) believe that an arrangement between the government and the private sector might improve efficiency while offering new opportunities and greater satisfaction to the people served.

Outsourcing and privatization offer a promise to reduce government costs and create jobs in the private sector.

OMB CIRCULAR A-76

The issue of whether or not to contract out federal functions has always been challenging and controversial. The Office of Management and Budget (OMB) issued Circular A-76 in 1966 and a supplemental to the OMB Circular A-76 during the big push for government streamlining in the early 1980s under President Reagan. The OMB Circular A-76 provides the policy guidance and implementation procedures for the Government to use in deciding whether to contract out to commercial activities for a product or service that could be obtained from a private sector source. The policy is intended to achieve savings and enhance productivity, retain certain governmental support functions utilizing in-house resources and rely on commercial sources to the maximum extent possible.¹ In addition to the OMB Circular A-76, the supplemental sets forth detailed procedures for conducting cost comparisons to determine whether specific functions should be performed with internal resources or by the private sector.

The OMB Circular A-76 introduces the concept, which is the policy, of the Government to rely generally on private

commercial sources for supplies and services, if certain criteria are met, while recognizing that some functions are an inherent responsibility of the Government and must be performed by Government personnel. Examples of these functions are direct conduct of criminal investigations, the command of military forces and the determination of Federal program priorities or budget requests. The Circular also gives appropriate consideration to relative cost in deciding between Government performance and performance under contract.² In a recent General Accounting Office (GAO) Audit, it was noted that the OMB Circular A-76 is an effective management tool in increasing the efficiency of the federal government and saving scarce funds and resources.³

The OMB Circular A-76 cost comparison process is designed to use competition to encourage change and improve the quality and cost of commercial support services. The process consists of three basic elements:

- The first element is the development of the performance work statement that describes the product or services to be procured in terms of what is required rather than how the work should be performed. This element allows all key players to understand and agree on the requirements.
- The second element is the development of a more efficient government organization that is the product of the

management study that defines the performance of the current operations and provides recommendations for improvements. The government's team reviews in-house alternatives and applies the private sector's methods during the execution of this element.

- The actual cost comparison is the last element. It includes specific cost elements and specifications that ensure that competitions are fair and equitable for all parties. The decision to transfer the function to a private contractor or retain it utilizing internal resources is made after the cost comparison.

DEFINING THE PROCESS

Privatizing or commercializing operations (outsourcing) that the government no longer needs to run can represent good management and common sense. These approaches will help to reduce financing requirements, debt servicing costs and the deficit. They will also contribute to better economic performance through increased efficiency, competition and new private-sector investment.

To clarify the terms, "outsourcing" shifts the function currently performed by government personnel to an outside provider, but the provider continues to use government

facilities to perform the function.⁴ "Privatization" transfers a function completely to the private sector to include infrastructure ownership, operations, management and maintenance.⁵

THE CLINTON ADMINISTRATION

The President has challenged Federal agencies to do more with less. The Administration's National Performance Review (NPR), headed by Vice President Gore, has an ambitious agenda to reinvent the government, to make it more effective, efficient and more responsive to the American people. Through these reinvention efforts, the Administration has saved \$137 billion over the last five years.⁶

The NPR has identified key management objectives to insure agencies achieve the goals. One of the Defense Department's objectives is to increase outsourcing of its infrastructure efforts. Competition is one of the NPR's management support initiatives. The NPR states that more competition will spur new technologies, new capital and new management techniques to help improve performance while creating greater opportunities for Federal and private sector employees. Under the privatization umbrella, the Secretary of Defense has announced that they will

evaluate full time equivalent positions for possible conversion to the private sector or other agencies in FY 1999.⁷

THE ROLE OF CONGRESS

Congress is a strong proponent for privatization to be implemented in the United States Government. The executive branch's policy is that agencies should rely on the private sector for needed goods and services to the extent it is cost effective. However, Congress, the legislative branch, stands in the way of many of these initiatives. Members of Congress, Republicans as well as Democrats, have long been leery of turning over programs that benefit their constituents to the vagaries of the private market. Everyone supports privatization until an attempt is made to privatize something in his or her district. For example, Senators from California and Texas joined together to filibuster a Bill that addressed competition for military depots in their respective states and would unnecessarily add billions of dollars to the Nation's defense budget. Members of Congress are willing to protect wasteful and inefficient programs because these programs directly benefit some of their constituents.

Several laws inhibit many outsourcing or privatization opportunities. Congressional support is needed for a

comprehensive review of laws that restrict or impede these endeavors. Privatization requires policy and legislative changes since it requires the conversion of Federal assets to private assets. For example, depot consolidation and privatization is a prime area where the DoD can realize substantial savings and efficiencies. The current law limits the proportion of depot maintenance work performed in the private sector to no more than 40 percent.⁸ A change in this law would provide the DoD more flexibility to pursue the advantages of privatization, partnerships and dual use of depots by government and industry.

Recent legislation requires an annual listing of activities performed that are not, in the judgement of the head of an executive agency, inherently governmental functions. The agency head reviews the activities on the list, which may be challenged by interested parties (i.e., federal labor unions) and is required to submit the list to OMB for their review and publication in the Federal Register. Hence, the attitudes of members of Congress need to be changed or adjusted in order to better support outsourcing and privatization initiatives.

DEPARTMENT OF DEFENSE

The DoD suffers from the same detriments to change. The Defense Department's planned large-scale outsourcing and privatization effort could result in the most dramatic change in the Federal marketplace in decades. The core mission of the DoD is to support and defend the Constitution against all enemies and to apply military power as directed by the National Command Authority. To succeed, DoD must perform inherent functions in support of military operations such as planning, management, and contracting. These functions can only be carried out if Defense organizations receive essential support services. Services such as housing, recreation and child care are not essential to the conduct of core combat functions of the military but are essential elements to the military quality of life. These support services provide some compensation for numerous deployments and the inherent transient home life of service members. DoD's outsourcing initiative is a long term effort planned to streamline support functions. This will give Americans the best value for their tax dollars and our men and women in uniform the capabilities they need to be successful on the battlefield.

Combat forces have already been reduced significantly during the recent waves of DoD downsizing. While today's defense budget cuts continue to disrupt military programs,

Defense officials must constantly seek more effective and efficient means of meeting our obligations to the non-core functions. The "more effective and efficient" means equates to private sector businesses; hence, the recent emphasis on outsourcing and privatization within DoD. The DoD divided personnel into two categories: active mission forces, which are the troops who go to the battlefield, and infrastructure forces, which includes everyone else. The current planned effort targets the infrastructure forces that represent about two-thirds of today's active duty Defense personnel.⁹

The 1998 Annual Report of the Secretary of Defense to the President and Congress addresses the need to reform the business of the DoD. One of the major initiatives for Defense reform is expanding competition, which is the driving force of the American economy. Competition drives organizations to improve quality, reduce costs and focus on their customer's needs.

The DoD must increasingly rely on the competitive powers of the marketplace. In doing so, the DoD must evaluate the entire military and civilian workforce to identify which functions are commercial in nature and could be opened to competition.

Competitive sourcing (outsourcing) and privatization can lower costs and improve performance across a wide range of support activities. Since 1979, the Army conducted over 400 cost competitions covering more than 25,000 positions.

Regardless of who won the competition, total operating costs were reduced on average by 28 percent.¹⁰ The funds saved from these competitions were utilized to augment depleted modernization accounts. These cost savings demonstrate that DoD is committed to becoming a more efficient organization.

The May 1997 Report of the Quadrennial Defense Review addressed the need to take advantage of business process improvements being pioneered by the private sector.¹¹ Over the past decade, the American commercial sector has reorganized, restructured and adopted new business and management practices in order to ensure its competitive edge in the rapidly changing global market place. The DoD must also adopt proven management practices that make the organization more efficient, effective and responsive. The DoD must break away from stereotypical defense acquisition processes and mindsets and begin to think and do things more in the terms of "commercial like acquisitions." Acquisition reform is key to being successful in an environment that is very unstable and unpredictable. To this end, it is imperative that the DoD become a "world class buyer" like its commercial counterparts. DoD must utilize partnering and teaming with the private sector and develop a smarter, business savvy workforce through continuous training.

Outsourcing and privatization offer the prospect of lowering costs and improving performance across a wide range of

support activities. The success of this effort hinges on the answer to a single question: How can industry achieve dramatic savings compared with current government operations? A big part of the answer is privatization and outsourcing.

Defense Budget Authority in FY 97\$

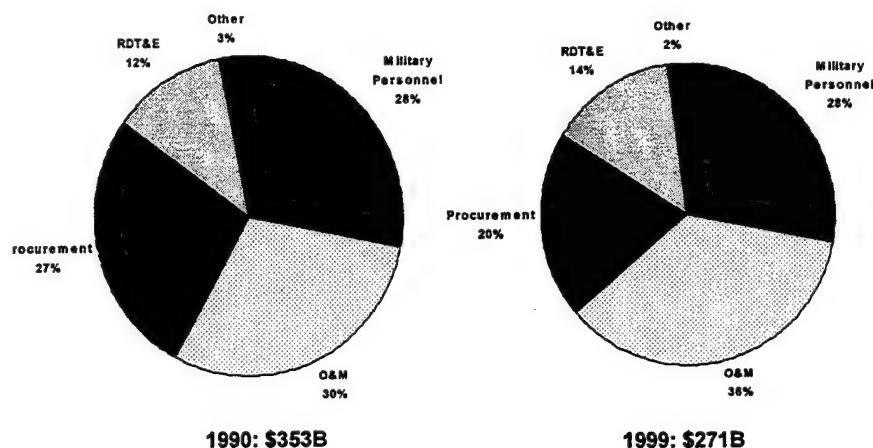


Figure 1

As these charts show, the defense budget has declined (constant FY 1997 dollars) in the past nine years.¹² The cutback in funding has been unevenly distributed. Procurement funding, however, has been reduced by 7 percent, and now represents only 20 percent of the overall DoD budget compared to 27 percent in FY 1990. The only budget account to show an increase is the Operations and Maintenance (O&M), which grew from 30 percent of

the budget in FY 1990 to 36 percent in FY 1999. Because most support functions are funded under O&M, that account is the most likely to be affected by outsourcing.

PRIVATIZATION

Privatization is the process of changing a public entity or governmental enterprise to private control and ownership.¹³ It is based on the principle that private ownership generates greater accountability than the government process. Industry gains the flexibility to make innovative infrastructure investments to enable significant efficiency enhancements. Private owners risk their own money instead of taxpayer dollars. Therefore, they have stronger incentives to provide quality service at attractive prices. If a firm fails to do so, the customers will stop buying or turn to other competitors. If the firm is a government contractor, it may risk losing the government's business once the contract expires.

Contractors have almost completely replaced Federal employees in some functions, such as cleaning services, travel management and most recently, personnel security investigations. When contracting for such services and actions, agencies must be fully aware of the terms of the contract, contractor performance criteria and contract administration. Services that involve or

relate to budget preparation, including workload modeling, fact-finding, efficiency studies and cost analysis must maintain and preserve appropriate agency control.

Privatization is an "off the balance sheet" financial method. It requires no up-front funds from the government and much of the responsibility is transferred to or shared by the private sector contractor.

The success at the Redstone Central Waterworks Treatment Project proves that privatization can work. Officials at Redstone and the Army Corps of Engineers implemented actions that can be used to trace the success of this effort. They planned properly and procured a contract based on qualifications first and life-cycle cost second. Their decision was based on a comparison of life cycle costs of the privatized system compared to the conventional procurement.¹⁴ However, success is not easily achieved in privatization. Success is the result of extensive studies and plenty of goodwill on the part of all parties involved. Privatization works when the principles of sound partnering are allowed to function. The government and industry must accept their respective level of responsibility and both must work toward the common success of the effort.

The Naval Air Warfare Center in Indianapolis is considered one of the only successfully privatized military bases. As the first full privatization of a military facility in U.S. history,

the Navy selected Hughes Technical Services to take over operations of the Naval Air Warfare Center. Based on rising costs and declining budgets, the Navy had two choices: close and move on or privatize and stay. The May 1996 transition was beneficial for both industry and for the federal workers employed at the facility scheduled to close. Hughes retains Navy contracts in excess of \$200 million annually and they hired 2,000 of the 2,200 federal workers.¹⁵

Decent and affordable housing is central to improving the quality of life for America's military service members and their families. The DoD is looking for viable private contractors to rapidly build and/or renovate military housing in a shorter period of time, at lower costs to the taxpayers and within an affordable budget. The primary goal is to accelerate the buyout of housing renovation by leveraging the government's capital resources with the private sector's financing and development. The Military Housing Privatization Initiative authorized the DoD to establish funds to carry out the financial transactions with the private sector.¹⁶ Each military department identified candidates for consideration and is committed to pursuing privatization when and where it makes sense. Military housing privatization goals provide all service members and their families access to safe and affordable housing.

OUTSOURCING

Outsourcing will enable a government agency to concentrate on "core operations" - those that are unique and truly vital to the organization. Having an outside provider handle important but routine tasks frees management to focus on improving quality, responsiveness and efficiency, while lowering costs.

Outsourcing offers the prospect of lowering costs and improving performance across a wide range of support activities. The following three conditions must be met before making the decision to outsource. First, the DoD will not outsource activities that constitute core warfighting missions; those activities that military leaders consider essential to the mission and would create a substantial risk if outsourced to the private sector. Second, a competitive market must exist for the activity. The DoD can only benefit if market forces exist to drive organizations to improve quality, increase efficiency and reduce costs. Third, outsourcing an activity must result in the best value for the government and therefore a reduced cost to the taxpayer.

Outsourcing government functions is difficult. Outsourcing is contracting the function previously performed in-house, both management and its associated components, to an outside provider. In outsourcing, the manager's job changes overnight. In fact, the new management responsibilities may be beyond the

abilities of the managers who ran the operation for many years. The manager's challenge in outsourcing is to bring two cultures together into a new partnership with new roles. Since the job affects the future of personnel on both sides of the partnership, there will be stresses and conflicts of an order new to the government organization.

Outsourcing is not new to the DoD. Commercial activity studies have been conducted since 1955. Nearly \$700 million in savings were achieved during 1981 and 1988 based upon a DoD commercial activity study using the A-76 requirements.¹⁷ The Defense Financial Accounting System (DFAS) has been in the outsourcing business since 1995 with significantly positive results. They currently outsource 10 percent of their workload to private sector and an additional 23 percent to other government agencies. The DFAS is currently undergoing a commercial activity study on another 17 percent of its workload. Through outsourcing, DFAS has saved more than \$25 million annually and expects to save over \$30 million and over 400 workyears through currently planned outsourcing.¹⁸

To complement the vigorous reform of the acquisition process, such as implementing changes authorized by the Federal Acquisition Streamline Act of 1994, the Federal Acquisition Reform Act of 1996, DoD Directive 5000.1 and DoD Regulation 5000.2, the DoD has initiated outsourcing opportunities to

generate additional savings for the modernization and readiness accounts. The government must continue to focus on their own core capabilities and outsource support operations. Over the past years, entire new industries have grown to meet this new demand for specialized support services. Examples of these specialized services for DoD are in aircraft and ship maintenance, inventory management, accounting, finance, internal audit, data systems operations, software maintenance, computer network support, telecommunications, facility management and benefits administration.¹⁹

Outsourcing to specialized firms provides a means for the government to take advantage of technologies and systems in the commercial sector that the government cannot acquire or operate economically and effectively. From previous experience, outsourcing has yielded both significant savings and increased readiness for each military service. These benefits have accrued across the broad range of functions in each service. For example, a Center for Naval Analysis study of cost comparisons indicated during the period of 1978 to 1994, the Navy saved approximately \$1.2 billion a year through competitive outsourcing.²⁰ Under the Defense Logistics Agency's direct vendor delivery and prime vendor programs, substantial savings and improvements in readiness have been accomplished through outsourcing. Suppliers delivered products directly to the DoD

customers rather than a warehouse for storage and subsequent distribution. DoD customers received requested goods 75 to 90 percent faster and 25 to 30 percent cheaper especially in the pharmaceutical arena.²¹ The Air Force successfully outsourced support functions at Vance Air Force Base implementing maintenance contracts for KC-10 and F-117 aircraft and software support for B-1 and B-2 aircraft. The Army has created a government-industry partnership to upgrade the Paladin artillery system. The Navy outsources a substantial amount of their ship repairs.

During the period of 1997 to 2001, the Air Force, Army and Navy should maintain 46 percent, 50 percent, and 50 percent, respectively, of the depot work in their organic facilities and possibly outsource the remainder.²² DoD believes that it should not compete with the private sector by performing depot work beyond the requirement to maintain core capabilities. Once a depot is sized to core, maintaining its ability to compete for non-core work will lead to added costs and inefficiencies which is preventable through effective outsourcing.

Not all critical or mission essential systems need to be maintained in organic maintenance facilities; however, there is a need to keep core depot maintenance capabilities to ensure our readiness for military missions. Core competencies represent the amount of maintenance capability DoD components must

maintain in organic depot facilities to ensure contingency operations are not compromised because of lack of depot maintenance support. As required by the DoD Authorization Act of 1995, the Services were required to conduct an assessment to determine the organic capability required to preserve warfighting capabilities and to support the National Security Strategy.²³ The Services determined that the weapon systems performing non-combat roles are candidates for outsourcing. Weapon systems that support the two major regional conflicts should be performed by government facilities unless a demonstrated and robust capability already exists in the commercial sector. Then and only then, can these systems be potential outsourcing candidates. One must always balance the risk and feasibility associated in implementing this methodology.

ISSUES TO CONSIDER WHEN OUTSOURCING/PRIVATIZING

The DoD should use a methodical approach when deciding whether outsourcing or privatization is warranted. There are six suggested phases which should be considered in the decision making process. Before any of the phases can be executed, the individuals must be identified who will take leadership responsibility, perform the analysis and make the decisions. The

six phases are Planning, Analysis, Design, Implementation, Operations and Termination.

Planning Phase:

The objectives and scope of the effort must be defined and the feasibility determined before a decision to proceed is to be made. Managers must give careful consideration to the issues from the onset of the outsourcing/privatization evaluation process. The objectives must be defined with explicit goals. The functions must be identified, the purpose addressed and an evaluation complete to answer questions and make decisions such as the following:

- What are the agencies core competencies?
- Which services or support functions are not integral to the core competencies?
- Can it be fixed internally?
- What functions might be better accomplished by an outside vendor?
- What are the overall goals and objectives?
- And, most importantly, decide how the people issues will be handled.

Once the decision is made to evaluate the commercialization of a function, solving people issues is critical to a successful process. People issues include unions, pensions, health benefits and promotional opportunities. The foremost issue is

communication. Keeping people informed every step of the way is important because, often times, people become a part of the new operation. Steps must be taken to ensure that the right message is traveling as fast and as widely as hearsay.

When activities are transferred outside of DoD, employees may face dislocation and ultimately unemployment. DoD must be committed to making this transition as humane as possible and utilize tools to assist in retaining, relocating and retraining employees. Also, DoD must continue to work with unions and employees associations to ensure that they are kept informed of potential changes affecting civilian employees. Hence, costly litigation procedures/hearings against the government can be prevented.

Analysis Phase:

Managers should be able to predict the likely impact that outsourcing/privatization will have on the agency. An analysis to determine common conceptual and creative approaches must be performed to determine the feasibility from both Government and industry perspectives.

There are four factors common to the success of the outsourcing/privatization project. These factors must all be incorporated into the analysis process.

- Commitment by Government: The government must put together a multi-disciplined team, identify key leaders

and resources - all devoted to develop successful projects and see them through to completion.

- Benefits the Government: The decision to outsource/privatize must be beneficial and should have life-cycle costs equal to or lower than the alternative.
- Acceptable to Government: The function must be structured to achieve legal and environmental compliance and must be supported by the command, headquarters and appropriate Congressional committees.
- Acceptable to industry: The effort should provide a perception of financial low risk and provide adequate profit to industry.

It is during this phase that the request for proposal is developed, responses collected from vendors and analyzed resulting in the selection of the prime vendor.

Design Phase:

During this phase, the negotiations proceed with the vendor and a contract is developed and signed. Before the prime vendor is chosen, it is important to identify those individuals who will be given the responsibility for oversight and management of the arrangement and vendor relations.

These individuals will be part of the team that designs the contract. The size of the team depends on the scope and size of the project. Being part of the effort from inception is

critical for several reasons. First, there is no better way to understand issues than to be involved in all aspects leading to the contract.

Secondly, the relationships with the vendor starts at the moment contract discussions begin. Understanding the vendor is crucial to the success of the contract. It is important to bear in mind that the vendors have fine-tuned their approach and the agency should not be misled by what other organizations are paying or what a vendor might casually offer as a possible pricing scheme. Each contract is different and must be handled with the uniqueness of the effort being commercialized.

The decision on how to outsource or privatize must be made. Will it be a traditional procurement where it will be managed by the government or an innovative partnership with risks and rewards shared between the government and industry?

There are critical components in negotiating a sound contract. The emphasis from the outset should be to negotiate a fair and reasonable contract for both parties. Both parties must agree on all parts of the contract, which means that every possible contingency must be covered.

Implementation Phase:

This phase is where the transition of services from internal resources to the commercial sector is implemented. Privatization transfers all equipment, staff and responsibility

for services to a vendor while outsourcing only transfers a few selected functions. Work will either be transitioned in a phased manner to allow the vendor to digest the workload in small pieces or the entire function will be transferred on a specific day.

Operations Phase:

The relationship with the vendor is managed and any maintenance or changes in the relationship are negotiated and implemented. The original contract should have provided for a formal management relationship structure linking the government and the vendor. The structure is in the form of joint management teams that have the responsibility for the day to day, tactical and strategic aspects of the relationship. The teams' key responsibilities include the identification, resolution and if necessary, rapid escalation of issues to upper management.

Successful commercialization focuses on results. Properly defined performance criteria are objective, quantifiable and collectable at a reasonable cost and should be measurable.

Training for the vendor's personnel should be encouraged. The vendor, while experts in their field, require specific on-going training which enables them to develop the needed sensitivity to issues driven by the government.

Termination Phase:

At the end of the contract period, the decision must be made whether to negotiate another contract with the vendor. If the arrangement with the vendor does not succeed, it may be necessary to contract with another vendor which involves substantial costs and disruption and the cycle begins again. On the other hand, a decision could be made to bring the function back inside the government agency with all the costs and associated problems.

STRATEGIES FOR TRANSFERRING FUNCTIONS TO THE PRIVATE SECTOR

Many privatization initiatives have focused on obscure government operations whose improved service would not have much effect on the typical American taxpayer. Congress has the opportunity to build on their successes and take the case for privatization directly to the public by focusing on more visible and more troubled government entities. Strategies have emerged from both successes and failures in the U.S. and abroad. While these strategies do not guarantee success, they can help tilt the odds more in favor of reformers by helping them avoid common pitfalls. These suggested strategies are discussed below.

- Congress should establish leadership for privatization in both houses. A position should be established in the

Senate that would mirror the successful arrangement achieved in the House on their privatization initiatives.

- Congress and the executive branch should create a new agenda for privatizing specific programs and services. New targets need to be developed and added to the list of active and prospective opportunities as the result of the unprecedented number of privatization successes that occurred during the last Congress.
- Congress and the executive branch should develop a marketing strategy for the new agenda. Proponents of privatization must develop a compelling case for the changes they recommend. Support groups should be developed and organized to help make the case for change.
- Congress and the executive branch should develop a privatization plan that provides significant financial benefits for the taxpayer. Proponents of privatization must make a more compelling case to the taxpayer for what they plan to do with the billions of dollars in revenues that would result from privatization efforts.

ARE WE READY?

The perceived reduction in the threat to America's national security allowed the public's interest to move towards more

socioeconomic concerns rather than defense. The American public, and therefore Congress', focus after the end of the Cold war shifted toward the budget deficit and a desire to balance the budget. The amount of public attention the budget was receiving, combined with the perceived size of the defense budget, obligated the President and Congress to reduce the amount of discretionary spending. For Fiscal Year 1999, defense spending is estimated to be approximately 45 percent of the discretionary spending in the Federal budget.²⁴ The shrinking defense budget has forced the military's leadership to make some tough decisions between modernization of weapon systems and maintaining the force structure and readiness.

To help relieve the budget pressures, several reform initiatives were undertaken following the Cold War to make the Government more efficient and effective in carrying out its functions. Vice President Gore's National Performance Review has continued to pressure Federal Government agencies, especially DoD to work better at a reduced cost. DoD is accomplishing this by promoting innovation in the workplace, utilizing best business practices and implementing changes to laws, regulations and processes that impede progress in the positive sense.

DoD's acquisition and procurement processes came under increasing scrutiny due to several factors: (1) the public's

perception of fraud, waste, and abuse in the government procurement process, (2) the need to field state-of-the-art equipment, and (3) the reduced defense budget. Acquisition reform has become a catch phrase in DoD, and a cultural change has begun to take effect at the higher levels. The passing of the Federal Acquisition Streamlining Act of 1994 (FASA), the release of the new DoD 5000 series documents, and the efficiencies within acquisition operations through competitive sourcing and privatization indicate that progress is being made. DoD has begun to reinvest these savings into modernization and other high priority accounts. Presently, the Army is in the process of obtaining approval to privatize a prime vendor contract in support of the Apache program. This contract, which would be the largest privatization effort, has projected savings of approximately \$100 million over a five year period.²⁵ This clearly demonstrates the outsourcing movement towards public-private partnerships and the ability to reinvest savings into other modernization accounts.

Competitive sourcing and privatization offer the prospect of lowering costs and improving performance across a wide range of support activities; however, successful outsourcing and privatization will not occur overnight. Quick fixes may save some dollars in the short term at the time of contract signing, but almost always produce subsequent increases due to hasty

articulation of contract requirements. Commercial firms cannot always perform the required work and often times, activities are best performed by the government because of their expertise and technological edge.

There have been impressive privatization successes in recent years but they only represent a small fraction of the opportunities that exist within the government. It has been difficult and time-consuming because of political obstacles that confront government officials. Agencies have successfully overcome these obstacles and have provided Congress and the Administration with several important lessons learned:

- Successful privatization requires dedicated leadership.
All successful programs have had at their helm an elected official, who considered privatization a priority, was willing to do battle with opponents and was determined to persevere in the face of numerous obstacles and delays.
- Successful privatization requires that proponents of reform defuse the opposition. Programs that succeeded are ones that are open to compromise and accommodate the concerns of existing and potential opponents.
- Policymakers can be successful if they are patient and persistent. The U.S. government, with its checks and balances, separation of powers and congressional committee system, encourages lengthy deliberation and

allows numerous opportunities for the opponents of privatization to delay and obstruct any efforts that would alter the status quo. Fighting for privatization efforts year after year ultimately can lead to success.

- Privatization requires effective use of legislative vehicles. Congressional limitations to an agency's budget, the appropriation process and legislative changes are all tools that can be used to support privatization.

DoD's overarching goal is to maintain and improve long-term military readiness and to ensure the Department addresses modernization needs. The DoD is constantly trying to pursue creative and effective management initiatives to reduce infrastructure costs and optimize logistical support.

Privatization/outsourcing will enable the DoD to effectively modernize and sustain critical systems in support of the warfighter at a reduced cost to the taxpayer. These cost saving initiatives will also allow the DoD to maintain the quality of life objectives to ensure that the DoD has both the resources and infrastructure it needs to meet the challenges of the 21st century.

WORD COUNT = 5714

ENDNOTES

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